



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Summary of Special Report

National Security Technologies, LLC Internal Audit Implementation Design

This document provides a summary of a Special Report that is not publicly releasable. Public release is controlled pursuant to the Freedom of Information Act.

OAS-M-07-05

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This is a summary of Special Report, OAS-M-07-05, entitled "National Security Technologies, LLC Internal Audit Implementation Design." The complete report is not available for public disclosure.

BACKGROUND

Generally accepted government auditing standards and the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) require audit activities to be independent and auditors to be objective in performing their work. For example, IIA Standards require that the chief audit executive report to a level within the organization that allows internal audit activities to accomplish its objectives.

Recognizing the importance of independence and objectivity, the Department of Energy (Department) has included a standard contract clause in its management and operating contracts requiring contractors to prepare an Internal Audit Implementation Design (Design) that, among other things, describes the audit activity's placement within the contractor's organization including reporting requirements. The Department's Acquisition Guide states that the contractor should structure its organization so that the chief audit executive reports functionally to the board of directors, audit committee, or equivalent corporate independent governing body.

In 2006, the Department's National Nuclear Security Administration (NNSA) selected National Security Technologies, LLC (NSTec), to manage and operate the Nevada Test Site. During a recent inquiry, we evaluated NSTec's organizational structure to determine whether it provided internal audit independence envisioned by audit standards and Departmental guidance.

RESULTS OF AUDIT

NSTec had not provided its internal audit activity with organizational independence. Specifically, NSTec's current organizational structure requires the internal audit manager to report directly to the President and Chief Operating Officer, without any functional reporting requirements to an independent governing body such as a Board of Director's Audit Committee.

Although NSTec developed a Design that provided organizational independence for the internal audit function, NSTec had not fully implemented the Design. The final Design, approved by NNSA in April 2007, provided internal audit independence by making the internal audit manager report functionally to the Board of Directors with open access to the Board's Audit Committee, and report administratively to the NSTec President and Chief Operating Officer. Despite the approved Design's requirements, NSTec's Internal Audit Policy, approved by its President on April 5, 2007, requires the Manager of Internal Audit to report directly to the President and Chief Operating Officer and excluded all references to the Audit Committee and Board of Directors.

We recommended that the Design, approved in 2007, be fully implemented. Management agreed with the report's conclusions and recommendations.